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Orangerooof Canada Limited

Annual Report 1973

Orangerooof Canada Limited

CORPORATE DIRECTORY

Officers:

J. Howard Hawke, Chairman of the Board
John J. Courtemanche, President
Russell A. Rule, Vice-President
Harold J. Murphy, Q.C., Secretary

Directors:

John J. Courtemanche*
Harold E. Crate, F.C.A.*
James F. Crothers
George W. Crothers
Joseph P. Crothers*
J. Howard Hawke
Graeme G. Kirkland*
Harold J. Murphy, Q.C.
W. J. R. Paton
Russell A. Rule
Douglas G. Sinclair
*Member of Executive Committee

Executive Offices:

Howard Johnson's Airport Hotel,
P.O. Box 605, Rexdale, Ont. M9W 5L6
Telephone (416) 677-3655

Solicitors:

Garvey, Ferriss

Auditors:

Thorne Gunn & Co.

Transfer Agent and Registrar:

Canada Permanent Trust Company
Vancouver, Calgary, Toronto, Montreal, Halifax

Stock Exchange Listing:

Montreal Stock Exchange

Consultant:

Raymond W. Smith, Vice-President,
International Development,
Howard Johnson Company, Boston.

The Annual Meeting of Shareholders will be held Wednesday, June 12, 1974, at 11 a.m. in Howard Johnson's Airport Hotel, 801 Dixon Road, Toronto.

HOWARD JOHNSON'S CANADIAN LOCATIONS

Motor Lodge/Restaurant Combinations

TORONTO (Airport), Ont.
801 Dixon Road, Rexdale.
(416) 677-6100 ✓
TORONTO (East), Ont.
Markham Road and Hwy 401
(416) 439-6200 ✓
LONDON, Ont.
1150 Wellington Road South
(519) 681-0600 ✓
ST. CATHARINES, Ont.
Lake Street & Q.E.W.
(416) 934-5400 ✓
MONCTON, N.B.
Trans Canada Hwy at Magnetic Hill
(506) 854-1050 ✓
ORILLIA, Ont.
Hwy 11 at Hwy 12N.
(due to open summer, 1974) ✓

WHITBY, Ont.
Thickson Road and Hwy 401
(due to open early 1975)

Restaurants

TORONTO, Ont.
291 Yonge Street
1507 Yonge Street
3757 Keele Street
BARRIE, Ont.
Hwy 27 N.
STONEY CREEK, Ont.
106 Centennial Pkwy. N.
BROCKVILLE, Ont.
Thousand Island Mall
MONTREAL, Que.
710 St. Catherine St., W. 3
1236 St. Catherine St. W.
QUEBEC CITY, Que.
22 Cote de la Fabrique
OSHAWA, Ont.
Five Points Mall
285 Taunton Road E. ✓

Red Coach Dining Rooms

TORONTO, Ont.
Adjacent to Airport Hotel, Dixon Road.

Handwritten notes:
✓
✓
✓
✓
✓
✓
late 1975
early 7
2 more unknown

PRESIDENT'S REPORT

On behalf of your Board of Directors, I am pleased to report on the activities and progress of Orangerooft Canada Limited, during the fiscal year ended December 30th, 1973.

MASTER AGREEMENT

Your Company's most valuable, though intangible, asset continues to be the Master Agreement to develop Howard Johnson's Hotels and Restaurants in Canada.

With the co-operation of the Howard Johnson Company, the Agreement has undergone a significant change which we believe will accelerate the growth of Orangerooft Canada. The restriction of only two sub-licences allowed for every one Company operated combination motor lodge and restaurant has been removed.

In addition, the time limit for completion of the first nine combination motor lodges and restaurants, has been set at December 31st, 1975. These revisions have been formally executed.

RESULTS FOR THE YEAR

Revenue increased by 24.5 percent to \$8.2 million and operating income before depreciation and amortization of deferred expenses and licences, improved from a loss of \$240,000 to a gain of \$180,000. Net loss for the year was reduced by 53.3 percent to \$330,000.

NEW OPERATIONS—COMPANY

The St. Catharines Motor Lodge and Restaurant was opened in July, and the Toronto East Motor Lodge and Restaurant opened in August. New restaurants began operations in Stoney Creek in December and Barrie in April 1974. A restaurant in Brockville will be ready for opening in late June 1974.

NEW OPERATIONS—LICENSEES

The Motor Lodge/Restaurant in Orillia, now under construction, should be opened in the Summer of 1974. The Whitby Motor Lodge/Restaurant, also under construction, is expected to be ready late in 1974. Restaurant licences have been approved for units in Niagara Falls, Drummondville, P.Q., and two in Montreal, all for projected openings in late 1974 or early 1975.

MANUFACTURING PLANT

The problems of distribution of ice cream into the province of Quebec have now been overcome. This ability contributed to the increased productivity of our manufacturing operation.

On a limited basis, we have begun processing some of the food products served in our res-

taurants and while it is too early to determine whether we will expand this activity, our early results are encouraging.

Sharply increased raw material costs make it difficult to hold current margins while continuing to maintain our policy of providing good value at reasonable price levels to all consumers.

ORGANIZATION

Your Company has moved to a Responsibility Management concept for its restaurants and motor lodges, to build a stronger, more knowledgeable manager group, better able to deal with the problems and opportunities of their individual operations. In this context, we are devoting the first half of 1974 to a consolidation period for the strengthening of our financial and planning controls, prior to undertaking a programme of further expansion.

WESTERN CANADA

A development agreement has been entered into with Bestlands Development Limited, of Winnipeg, Manitoba, to develop and have in operation, two Motor Lodge/Restaurant units in each calendar year between 1975 and 1979.

Your management feels this move will accelerate our development in Western Canada and is another step forward in providing a truly national Howard Johnson's chain.

HISTORY

The 5 year summary in this year's report gives you a picture of the losses involved because of start-up costs in a new operation. With our organization developed, we believe profits will now be achieved as additional units come on stream.

GENERAL

We succeeded in overcoming many difficult obstacles in 1973 including operating two new Motor Lodges for six months without elevator service, caused by labour problems. Despite the continuation of the energy crisis, with its possible curtailment of summer traffic, and the accelerating costs of our supplies, we expect 1974 to be significantly better than 1973.

May we express our thanks to the people who have contributed to the Company's continuing improvement and to our shareholders, licensees and customers. We look forward to your continued interest and support.

ORANGEROOFT CANADA LIMITED,

John J. Courtemanche,
President.

Orangeroof Canada Limited

and subsidiary companies

FIVE YEAR SUMMARY

Operation	(\$000's)				
Operating Income	1969	1970	1971	1972	1973
Hotels	—	—	(105)	(27)	240
Restaurant at hotels	—	—	46	176	195
Restaurants (free standing)	—	—	17	(52)	33
Licences, Royalties and other income ..	80	222	69	114	125
Total	80	222	27	211	593
Corporate Expenses	415	494	553	632	638
Debenture Interest	—	—	—	285	285
Loss for the Year	335	224	526	706	330
Cash Flow	(316)	(240)	(339)	(240)	180

GROWTH OF HOWARD JOHNSON'S HOTELS AND RESTAURANTS

Motor Lodge/Restaurant Combinations	1969	1970	1971	1972	1973	projected 1974
Toronto Airport			•	•	•	•
London			•	•	•	•
Moncton*			•	•	•	•
St. Catharines					•	•
Toronto (East)					•	•
Orillia*						•
Whitby*						•

Restaurants

Montreal,						
710 St Catherine St.*		•	•	•	•	•
Toronto,						
Keele St.			•	•	•	•
291 Yonge St.			•	•	•	•
1507 Yonge St.			•	•	•	•
Montreal,						
1236 St Catherine St.*				•	•	•
Quebec City*					•	•
Stoney Creek					•	•
Oshawa*					•	•
Barrie						•
Brockville						•

* operated by Licencees

Orangerooof Canada Limited

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 30, 1973

(with comparative figures for 1972)

	1973	1972
Revenue		
Sales	\$7,966,000	\$6,338,000
Royalties and licence fees	141,000	189,000
Interest	77,000	46,000
	<u>8,184,000</u>	<u>6,573,000</u>
Costs and expenses before the undernoted	6,972,000	5,885,000
Interest on long-term liabilities	786,000	693,000
Royalties and licence fees	246,000	235,000
	<u>8,004,000</u>	<u>6,813,000</u>
Income (loss) before the undernoted	<u>180,000</u>	<u>(240,000)</u>
Depreciation	350,000	314,000
Amortization of deferred expenses	134,000	126,000
Amortization of licences	26,000	26,000
	<u>510,000</u>	<u>466,000</u>
Loss for the year	<u>\$ 330,000</u>	<u>\$ 706,000</u>
Loss per class A and B common shares	15¢	32¢

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED DECEMBER 30, 1973

(with comparative figures for 1972)

	1973	1972
Deficit at beginning of year		
As previously reported	\$1,972,000	\$1,176,000
Adjustment of prior years' depreciation (note 13)	(144,000)	(46,000)
Adjustment of prior years' sales tax	11,000	3,000
As restated	<u>1,839,000</u>	<u>1,133,000</u>
Loss for the year	<u>330,000</u>	<u>706,000</u>
Deficit at end of year	<u>\$2,169,000</u>	<u>\$1,839,000</u>

CONSOLIDATED BALANCE

(with comparative figures)

ASSETS

	1973	1972
CURRENT ASSETS		
Accounts receivable (note 2)	\$ 525,000	\$ 296,000
Costs of land and building recoverable under sale and lease-back agreement (note 3)	2,321,000	1,748,000
Current portion of mortgages receivable	231,000	88,000
Inventories, at the lower of cost and net realizable value	187,000	126,000
Deposits and prepaid expenses	38,000	32,000
	<u>3,302,000</u>	<u>2,290,000</u>
MORTGAGES RECEIVABLE (note 4)	<u>1,369,000</u>	<u>445,000</u>
FIXED ASSETS (note 5)		
Buildings, equipment and leasehold improvements, at cost	10,062,000	9,049,000
Less accumulated depreciation	785,000	434,000
	<u>9,277,000</u>	<u>8,615,000</u>
OTHER ASSETS, at cost less amortization		
Licences (note 6)	426,000	452,000
Deferred expenses (note 7)	607,000	546,000
	<u>1,033,000</u>	<u>998,000</u>
	<u>\$14,981,000</u>	<u>\$12,348,000</u>

Approved by the Board

J. H. Hawke, Director

J. J. Courtemanche, Director

ET—DECEMBER 30, 1973

(December 31, 1972)

LIABILITIES

	<u>1973</u>	<u>1972</u>
CURRENT LIABILITIES		
Bank advances (note 8)	\$ 3,776,000	\$ 623,000
Accounts payable and accrued liabilities	852,000	826,000
Holdbacks payable on construction contracts	70,000	117,000
Principal due within one year on long-term liabilities	190,000	172,000
	<u>4,888,000</u>	<u>1,738,000</u>
LONG-TERM LIABILITIES (note 9)	<u>7,692,000</u>	<u>7,879,000</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 10)		
Authorized		
1,400,000 Class A common shares without par value		
3,500,000 Class B common shares without par value		
Issued		
1,400,000 Class A common shares }	4,570,000	4,570,000
800,000 Class B common shares }		
DEFICIT	<u>2,169,000</u>	<u>1,839,000</u>
	<u>2,401,000</u>	<u>2,731,000</u>
	<u><u>\$14,981,000</u></u>	<u><u>\$12,348,000</u></u>

Long-term leases (note 11)

AUDITORS' REPORT

To the Shareholders of
Orangerooft Canada Limited

We have examined the consolidated balance sheet of Orangerooft Canada Limited and subsidiary companies as at December 30, 1973 and the consolidated statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 30, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, after giving retroactive effect to the change in accounting practice set out in note 13, have been applied on a basis consistent with that of the preceding year.

THORNE GUNN & CO.
Chartered Accountants

Toronto, Canada
March 29, 1974

Orangerooft Canada Limited

and subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 30, 1973
(with comparative figures for 1972)

	1973	1972
Source of funds		
Loss for the year	\$ (330,000)	
Items not involving current funds		
Depreciation	350,000	
Amortization of deferred expenses	134,000	
Amortization of licences	26,000	
	180,000	
Sale of fixed assets		\$2,348,000
Issue of 9¾ % first mortgage debenture	4,000,000	
Costs of land and buildings recoverable under sale and lease-back agreement		659,000
Decrease in non-current portion of mortgages receivable	256,000	155,000
	4,436,000	3,162,000
Application of funds		
Loss for the year		706,000
Items not involving current funds		
Depreciation		(314,000)
Amortization of deferred expenses		(126,000)
Amortization of licences		(26,000)
		240,000
Mortgages receivable	500,000	600,000
Additions to fixed assets	1,012,000	592,000
Non-current portion of costs of land and building recoverable under sale and lease-back agreement	680,000	
Deferred expenses	195,000	(1,000)
Long-term debt paid or included in current liabilities	4,187,000	1,484,000
	6,574,000	2,915,000
Increase (decrease) in working capital	(2,138,000)	247,000
Working capital at beginning of year		
As previously reported	563,000	308,000
Adjustment of prior years' sales tax	11,000	3,000
As restated	552,000	305,000
Working capital (deficiency) at end of year	\$ (1,586,000)	\$ 552,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 30, 1973

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary companies, Orange Roof Enterprises Limited and O.R. Restaurants Limited.

2. ACCOUNTS RECEIVABLE

Included in accounts receivable is an amount of \$43,000 under arbitration because of a dispute with the purchaser of the land and buildings sold and leased back as described in note 11(b).

3. COSTS OF LAND AND BUILDING RECOVERABLE UNDER SALE AND LEASE-BACK AGREEMENT

On February 28, 1974 the company completed the sale and lease-back of a lodge and restaurant under construction at December 30, 1973. The accumulated costs to the end of 1973 totalling \$3,001,000 have been accounted for as follows:

(a) Current portion recovered in cash and applied to reduction of bank advances	\$2,321,000
(b) Non-current portion recovered in the form of mortgages receivable	680,000
	<u>\$3,001,000</u>

4. MORTGAGES RECEIVABLE

Mortgages receivable

9% maturing May 15, 1975	\$ 175,000
9.5% maturing September 1, 1975	250,000
9.5% maturing June 1, 1982	246,000
9.5% maturing September 1, 1983	249,000

920,000

Less principal included in current assets	231,000
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689,000

Costs of land and building recoverable in consideration of mortgages
receivable under sale and lease-back agreement (note 3)

680,000

\$1,369,000

5. FIXED ASSETS

	1973			1972
	Cost	Accumulated depreciation	Net	Net
Buildings	\$ 6,075,000	\$127,000	\$5,948,000	\$5,942,000
Furniture and equipment	2,989,000	541,000	2,448,000	1,882,000
Leasehold improvements	682,000	117,000	565,000	605,000
Cutlery, china, linens, etc.	316,000		316,000	186,000
	<u>\$10,062,000</u>	<u>\$785,000</u>	<u>\$9,277,000</u>	<u>\$8,615,000</u>

For accounting purposes, depreciation is computed annually as follows:

Buildings	5% Sinking fund basis over a 40 year period
Furniture and equipment	10% Straight line
Leasehold improvements	Straight line over the term of the lease
Cutlery, china, linens, etc.	The company capitalizes a base stock at each location and expenses subsequent replacements.

6. LICENCES

	1973	1972
Master licence	\$214,000	\$227,000
Ice cream licence	212,000	225,000
	<u>\$426,000</u>	<u>\$452,000</u>

Under the master licence the company has the exclusive right to operate and licence others to operate Howard Johnson's lodges, restaurants and Red Coach Grills in Canada. The ice cream licence grants the company the exclusive right to manufacture and sell Howard Johnson's ice cream in Canada.

The licences expire on December 31, 1989, but provide for two additional ten year renewal periods on payment of stipulated renewal fees. Both licences provide for percentage royalties with the master licence having a minimum royalty of \$75,000 in each of the remaining years of the initial term. The company is obligated to ensure that no less than 40 Howard Johnson's combination restaurants and motor lodges are operating by December 31, 1989 and that 9 are operating by December 31, 1975.

The cost of both licences is being amortized over the period ending December 31, 1989.

7. DEFERRED EXPENSES

	1973			1972
	Expenses	Amortization	Net	Net
Deferred opening expenses	\$632,000	\$249,000	\$383,000	\$372,000
Deferred borrowing expenses	263,000	39,000	224,000	174,000
	<u>\$895,000</u>	<u>\$288,000</u>	<u>\$607,000</u>	<u>\$546,000</u>

It is the company's practice to defer opening and borrowing expenses. The opening expenses are to be amortized over the first sixty months commencing with the month following the opening of each lodge or restaurant, and the borrowing expenses over the term of the respective borrowing.

8. BANK ADVANCES

Bank advances are secured by a registered assignment of funds due to the company under an agreement for sale and lease-back (note 3) a registered assignment of certain mortgages receivable and a general assignment of other book debts.

9. LONG-TERM LIABILITIES

	1973	1972
Orangerooft Canada Limited		
9½ % Convertible sinking fund debentures		
Series A, maturing 1985	\$3,000,000	\$3,000,000
9¾ % First mortgage debenture, maturing 1978, payable \$421,000		
annually principal and interest	3,977,000	
10½ % Second mortgage, maturing 1974		1,500,000
Term bank loans repayable 1974 or earlier without notice or bonus,		
interest 2½ % over prime, secured by land and buildings		2,500,000
Due to Howard Johnson Company, payable \$26,000 annually 1974		
to 1976, \$51,000-1977	129,000	155,000
Principal amount of capitalized lease (note 5)	268,000	327,000
O.R. Restaurants Limited		
10¾ % First mortgage bonds, Series A, maturing 1981, payable		
\$20,000 annually 1974 to 1975, \$23,000 annually 1976-1980,		
\$25,000-1981	180,000	200,000
11 % First mortgage bonds, Series B, maturing 1981 payable		
\$41,000 annually 1974 to 1981	328,000	369,000
	<u>7,882,000</u>	<u>8,051,000</u>
Less principal included in current liabilities	190,000	172,000
	<u>\$7,692,000</u>	<u>\$7,879,000</u>

The 9½ % convertible sinking fund debentures series A, which are secured by a first floating charge on all the undertakings of the company call for annual sinking fund instalments of \$300,000 to commence in 1976, and can be redeemed otherwise than out of sinking fund monies at decreasing premiums commencing in 1977. The debentures are convertible into Class B common shares of the company at \$6.00 per share prior to 1981 and thereafter at \$7.50 per share to maturity (note 10).

Under the terms of the Trust Indenture securing the series A debentures, the company has agreed not to pay dividends on its common shares if the retained earnings are less than \$1,000,000 or if more than 50% of the series A debentures are outstanding.

The first mortgage debenture is secured by both a fixed and a floating charge on all the company's assets located at the Toronto Airport Hotel.

Long-term liability repayment requirements 1974 to 1978, are approximately as follows:

1974	\$ 190,000
1975	194,000
1976	502,000
1977	533,000
1978	4,201,000

10. CAPITAL STOCK

The Class A and Class B common shares have the following rights:

- (a) The Class A shares are entitled to 10 votes per share; the Class B shares are entitled to 1 vote per share.
- (b) Class A shares may be converted into Class B shares at any time on the basis of one Class B share for each Class A share. 1,400,000 Class B shares are reserved for issuance upon the conversion of Class A shares. If 90% of the Class A shares are converted into Class B shares, then at the company's option all the remaining Class A shares may, at any time and from time to time, be converted into Class B shares.
- (c) In all other respects, the Class A and Class B shares have equal rights.

500,000 Class B common shares have been reserved for issuance upon conversion of the \$3,000,000 Series A debenture.

11. LONG-TERM LEASES

- (a) The company has entered into long-term leases on land and buildings for periods varying from seven to thirty-seven years. From the balance sheet date these leases provide for minimum annual rentals of approximately \$1,131,000 and aggregate minimum rentals over the remaining terms of the leases of approximately \$25,600,000.

The leases contain options to renew.

- (b) During 1973 the company sold at cost and leased back over a term of 25 years, a motor lodge and restaurant completed during the year, for a minimum annual rental, included above, of \$213,000.

12. INCOME TAXES

Amounts available to be claimed against taxable income in future years, the tax effect of which has not been reflected in the accounts, are approximately as follows:

Losses carried forward, deductible up to:

1974	\$ 300,000
1975	490,000
1976	430,000
1977	400,000
	1,620,000

Excess of undepreciated capital cost over net book value of depreciable fixed assets at December 30, 1973	775,000

\$2,395,000

13. CHANGE IN ACCOUNTING PRACTICE

Beginning in 1973 the company has adopted the practice of recording depreciation on buildings on a 5% sinking fund basis over 40 years, whereas formerly the straight line basis over 40 years was used. This change in practice was applied retroactively and accordingly, the 1972 comparative figures have been restated from those previously reported to reflect a reduction of \$98,000 in the depreciation charge for that year. In addition \$46,000 has been credited to the deficit account at December 31, 1971, representing the reduction in depreciation for the year then ended. The effect of this change in the current year has been to reduce depreciation by \$96,000.

14. OTHER STATUTORY INFORMATION

	1973	1972
Number of directors (including retired directors)	12	13
Aggregate remuneration of directors as directors	\$ 6,000	\$13,000
Number of officers (including retired officers)	5	7
Aggregate remuneration of officers as officers	\$88,000	\$70,000
Number of officers who are also directors	4	6

